



Growth in DoD's Budget From 2000 to 2014

The Department of Defense's (DoD's) base budget grew from \$384 billion to \$502 billion between fiscal years 2000 and 2014 in inflation-adjusted (real) terms—an increase of 31 percent and an annual average growth rate of 1.9 percent.¹ Several factors contributed to that growth. The largest rate of growth was in the costs for military personnel, which increased by 46 percent over the period. The costs for operation and maintenance (O&M) increased by 34 percent, and the costs for acquisition increased by 25 percent. About two-thirds of the \$117 billion real increase in the budget went for the following activities: procurement; O&M costs for the Defense Health Program; research, development, test, and evaluation; the basic allowance for housing; fuel; and basic pay for active-duty military personnel.

For this analysis, the Congressional Budget Office (CBO) examined DoD's base budget, which excludes supplemental and emergency funding for overseas contingency operations (those conducted in Afghanistan and Iraq and other countries). DoD's base budget includes both

discretionary funding (controlled by annual appropriation acts) and mandatory funding (generally determined by eligibility rules, benefit formulas, and other parameters that are set in current law). All costs are expressed in 2014 dollars of budget authority, adjusted for the effects of inflation over the 15-year period using the gross domestic product price index; unless otherwise noted, all growth rates are measured in those real terms.² CBO's analysis is based on data from DoD. In addition, CBO relied on analyses described in several of its publications.³

Major Components of DoD's Budget

This report examines four broad categories of DoD's budget: military personnel, operation and maintenance, acquisition, and a collection of smaller budget accounts (see Figure 1).

■ **Military personnel** appropriations fund compensation for uniformed service members, including pay, housing and subsistence allowances, and related items, such as the cost of moving service members and their families to new duty stations. Funding in the military personnel category accounted for 28 percent of DoD's base budget in 2014.

1. This report examines budget subfunction 051, which encompasses funding for the military activities of the Department of Defense. See Office of the Undersecretary of Defense (Comptroller), *National Defense Budget Estimates for FY 2015 (Green Book)* (April 2014), <http://go.usa.gov/7HFX>. That subfunction does not include activities of the Army Corps of Engineers and several other civilian programs of DoD that appear in other parts of the budget.

CBO selected 2000 and 2014 for comparison because 2000 was the last full year before funding for defense was increased in response to the attacks on September 11, 2001, and 2014 was the most recent year for which appropriations were fully enacted. A comparison of DoD's budget request for 2015 with its budget in 2000 would yield similar findings.

2. Budget authority is the authority provided by law to incur financial obligations that will result in immediate or future outlays of federal government funds.

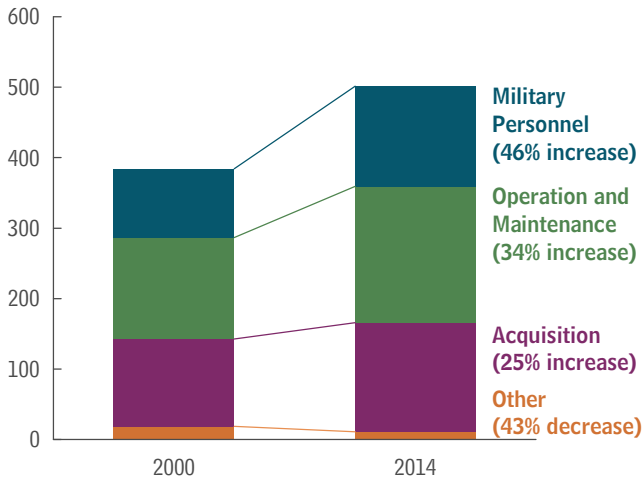
3. Congressional Budget Office, *Long-Term Implications of the 2015 Future Years Defense Program* (November 2014), www.cbo.gov/publication/49483; *Approaches to Reducing Federal Spending on Military Health Care* (January 2014), www.cbo.gov/publication/44993; and *Costs of Military Pay and Benefits in the Defense Budget* (November 2012), www.cbo.gov/publication/43574.

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Figure 1.

The Department of Defense's Inflation-Adjusted Base Budget, Fiscal Years 2000 and 2014

Billions of 2014 Dollars



Source: Congressional Budget Office.

Notes: Acquisition includes appropriations for procurement and for research, development, test, and evaluation. Other includes appropriations for military construction, for family housing, and for revolving, management, and other funds.

Inflation adjustments to the 2000 values are based on the gross domestic product price index.

- **O&M** appropriations, which accounted for 39 percent of DoD's base budget in 2014, fund most of the day-to-day operations of the military, including the maintenance of equipment, the purchase of spare parts, the training of military units, most of the costs of the military's health care program, compensation for most of DoD's civilian employees, and payments to DoD's support contractors.
- The **acquisition** category includes the appropriations for procurement and for research, development, test, and evaluation of weapon systems and other major pieces of equipment. Funding for acquisition made up 31 percent of DoD's base budget in 2014.
- **Smaller appropriations**, which together accounted for the remaining 2 percent of DoD's base budget in 2014, include funding for military construction, family housing, revolving funds, and a few other accounts.

Funding for Military Personnel Grew by 46 Percent From 2000 to 2014

The military personnel budget experienced the largest percentage increase of the four main budget categories CBO examined. That category encompasses most of the costs of compensating military personnel. (The most notable exception is the cost for the military's health care program, most of which is included in O&M.) The increase in funding for military personnel, averaging 2.7 percent per year, accounted for about \$45 billion of the \$117 billion in real growth in DoD's base budget, even though the number of military personnel in 2014 was slightly smaller than the number in 2000.

The largest contributors to growth in the military personnel budget were the following (see Figure 2):

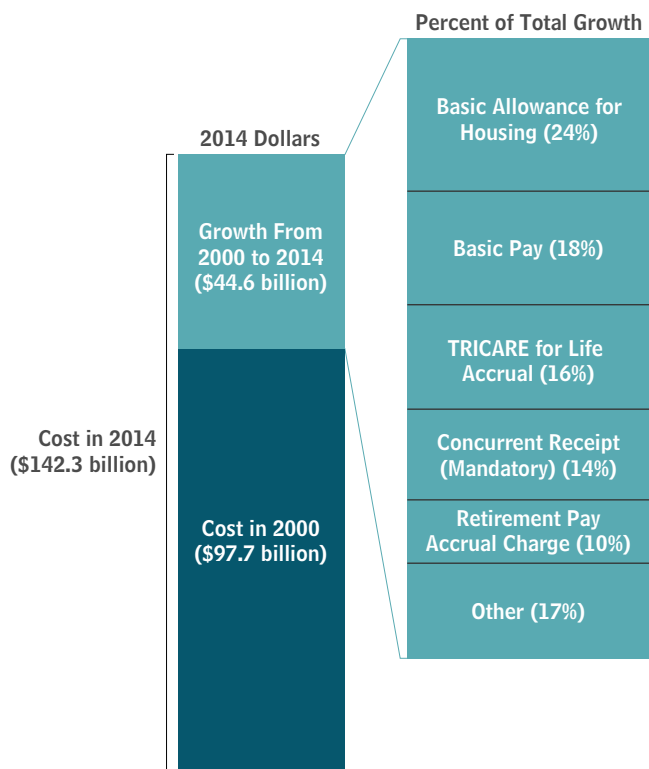
- The basic allowance for housing (BAH, which accounted for 24 percent of the growth in the military personnel budget),
- Basic pay for active-duty personnel (18 percent),
- The establishment of the TRICARE for Life program (16 percent), and
- The establishment and expansion of concurrent receipt, which is described at the end of this section (14 percent).

Basic Allowance for Housing

Funding for BAH grew by \$10.9 billion, more than doubling in real terms over the 2000–2014 period (see Table 1). That sharp increase, averaging more than 6 percent a year, resulted primarily from two policy changes. The first was DoD's shift from providing family housing directly to some service members to providing housing allowances to most service members so that they could rent or purchase housing in the local market or from contractors that build and operate housing on military bases. That change shifted funding from the family housing appropriation, which is shown in the "smaller appropriations" category examined in the last section of this report, to the BAH account in the military personnel appropriation. That transition began in the late 1990s and is now largely complete. The resulting increase in BAH was

Figure 2.

Sources of Growth in Military Personnel Costs, Fiscal Years 2000 to 2014



Source: Congressional Budget Office.

accompanied by a sharp, but smaller, reduction in the family housing appropriation.

The second policy change was a decision by DoD in 2000 to enhance BAH to cover 100 percent of the average housing costs for military families by 2005; the earlier policy covered no more than 80 percent of those costs. As a result of those two changes, the combined cost of BAH and the family housing appropriation grew by 59 percent (or \$7.6 billion) over the 2000–2014 period in real terms, an average increase of 3.4 percent per year.

Basic Pay

The real funding for basic pay for active-duty personnel grew by 19 percent (or \$8.2 billion) between 2000 and 2014, although military end strength (the number of service members on the rolls as of the end of a fiscal year) funded in the base budget declined by more than 4 percent over the same period. On average, basic pay per active-duty service member rose by 1.6 percent per year in real terms.

That growth is the result of pay raises set in legislation that exceeded inflation in nearly every year over the period. For most of those years, the raise also exceeded the rate of increase in the employment cost index (the default benchmark in statute for military pay raises) by half a percentage point.⁴ Largely as a result of those raises, DoD estimates, average cash compensation (the sum of basic pay and the allowances for housing and subsistence) for enlisted service members now exceeds the cash compensation for more than 90 percent of their civilian peers with comparable years of employment and education. The growth in basic pay also drives growth in related areas of the military personnel appropriation, including DoD's contributions to Social Security, Medicare, and the military retirement fund.

TRICARE for Life

Lawmakers established the TRICARE for Life benefit in 2000, which took effect in 2002. That benefit reimburses most of the out-of-pocket health care costs faced by Medicare-eligible retirees of the uniformed services and their families. To reflect future liabilities for this program, an accrual charge is paid for every current service member into the Medicare Eligible Retiree Health Care Fund. In 2014, DoD's accrual charges totaled \$7.3 billion.

Concurrent Receipt of Retirement and Disability Benefits

Another benefit created after 2000 is known as concurrent receipt. Established in the 2003 National Defense Authorization Act and broadened several times since then, concurrent receipt enables certain groups of retired military personnel to collect their full military retirement pay without having it reduced by the amount of compensation they receive from the Department of Veterans Affairs for service-connected disabilities. Starting from the Civil War era, federal law had required that military retirement pay be reduced dollar for dollar by the amount of disability compensation a retiree received; most retirees still benefited from disability compensation under that 150-year-old system, though, because that compensation is tax-free. The accrual charges for providing the added retirement benefits under concurrent receipt are part of DoD's mandatory spending. By 2014, those charges had grown to \$6.3 billion.

4. For more information about military pay and benefits, see Congressional Budget Office, *Costs of Military Pay and Benefits in the Defense Budget* (November 2012), www.cbo.gov/publication/43574.

Table 1.**Budget Authority in the Department of Defense's Base Budget**

Billions of 2014 Dollars

	2000	2014	Change, 2000 to 2014	Percentage Change, 2000 to 2014
Military Personnel				
Basic allowance for housing	8.2	19.1	10.9	133
Basic pay for active-duty personnel	43.4	51.6	8.2	19
TRICARE for Life accrual charge (Medicare Eligible Retiree Health Care Fund)	0	7.3	7.3	n.a.
Concurrent receipt (Mandatory)	0	6.3	6.3	n.a.
Reserve and Guard personnel	12.5	17.6	5.1	41
Retirement pay accrual charge	15.0	19.5	4.5	30
Basic allowance for subsistence	3.5	4.1	0.6	17
Other military personnel costs	15.1	16.7	1.7	11
Subtotal	97.7	142.3	44.6	46
Operation and Maintenance				
Defense Health Program O&M costs	16.3	32.7	16.4	101
Fuel (Based on DLA energy sales)	4.0	14.2	10.1	252
Base operating support	19.5	21.3	1.8	9
Facilities sustainment, restoration, and modernization	6.4	6.2	-0.2	-3
Other O&M costs	97.7	119.1	21.4	22
Subtotal	143.9	193.5	49.6	34
Acquisition				
Procurement	72.7	92.4	19.7	27
Research, development, test, and evaluation	51.2	62.8	11.6	23
Subtotal	124.0	155.2	31.3	25
Smaller Appropriations				
Military construction	6.8	8.4	1.6	24
Family housing	4.7	1.4	-3.3	-70
Revolving funds	9.7	2.2	-7.5	-77
Trust funds, receipts, and other accounts	-2.3	-1.3	1.0	42
Subtotal	18.8	10.7	-8.1	-43
Total Budget Authority	384.5	501.7	117.3	31
Memorandum:				
Total civilian compensation	55.5	75.2	19.7	35
Estimated civilian compensation in O&M accounts	48.8	66.2	17.3	35
BAH and family housing	12.9	20.5	7.6	59
O&M and revolving funds	153.6	195.7	42.1	27

Source: Congressional Budget Office.

Notes: Values for 2000 are actual. Values for 2014 are budget authority for enacted appropriations and for estimated mandatory spending.

Reserve and Guard personnel costs exclude TRICARE for Life and retirement accrual charges, which are included in the totals for those accrual charges.

n.a. = not applicable; O&M = operation and maintenance; DLA = Defense Logistics Agency; BAH = basic allowance for housing.

Funding for Operation and Maintenance Grew by 34 Percent From 2000 to 2014

The operation and maintenance appropriation experienced the second largest percentage increase from 2000 to 2014 among the four main budget areas CBO examined, growing in real terms by an average of 2.1 percent per year. However, O&M accounted for the largest dollar increase in DoD's base budget, about \$50 billion, because O&M is substantially larger than any other portion of the base budget.

Almost 60 percent of the real growth in O&M between 2000 and 2014 is attributable to three of its components (see Figure 3):

- The Defense Health Program (accounting for 33 percent of the growth in O&M),
- Fuel (20 percent), and
- Base operating support (4 percent).

Those three categories accounted for slightly more than one-third of the O&M budget in 2014. The remainder of that budget funds thousands of different activities. One common factor across the O&M budget was an increase in the costs of civilian personnel (described more fully below).

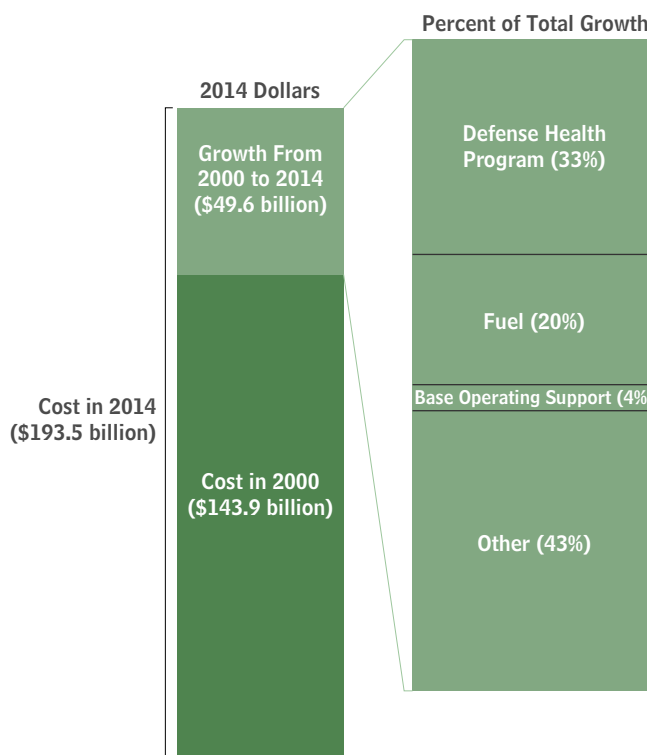
Defense Health Program

The Defense Health Program receives most of the funding used to provide health care to more than 9 million beneficiaries, including 1.6 million military personnel from active components or activated members of the reserve or National Guard, 2.2 million family members of those personnel, and 5.3 million military retirees and their family members. Spending for the Defense Health Program roughly doubled in real terms between 2000 and 2014.⁵ The primary reasons for that growth are the new and expanded TRICARE benefits that lawmakers

5. The Defense Health Program also receives smaller amounts of funding in the procurement; research, development, test, and evaluation; and military construction accounts; the growth in costs cited in this section does not include those amounts. For more information about the causes of growth in the Defense Health Program, see Congressional Budget Office, *Approaches to Reducing Federal Spending on Military Health Care* (January 2014), www.cbo.gov/publication/44993, pp. 10–19.

Figure 3.

Sources of Growth in Operation and Maintenance Costs, Fiscal Years 2000 to 2014



Source: Congressional Budget Office.

authorized, including expanded benefits for reservists and their families, and the very low out-of-pocket costs of TRICARE relative to other health care plans. Those factors have encouraged more military retirees and their families to use the system and to consume more health care services. Between 2000 and 2012 (the latest year for which detailed usage data are available), the real growth in costs per eligible beneficiary in the Defense Health Program averaged 4.0 percent annually, a rate greater than the 3.0 percent per year increase in real costs per capita observed nationwide over the same period.

Fuel

DoD's fuel costs shot up by about 250 percent, or \$10 billion, in real terms from 2000 to 2014. Because DoD planned to use about the same quantity of fuel in 2014 as it used in 2000, that growth is mostly a result of higher prices for petroleum-based fuel, which rose from roughly \$40 per barrel in 2000 (in 2014 dollars) to about \$100 per barrel in 2014. Because fuel accounts for a relatively small part of the O&M budget, however, growth in

fuel costs contributed only 20 percent to growth in O&M costs over the period.

Base Operating Support

DoD's budget to operate its bases rose by 9 percent, or nearly \$2 billion, from 2000 to 2014. The budget for base operating support pays for various activities associated with military installations, including airfield and port operations, security, maintenance, utilities, grounds-keeping, and family and recreation programs. CBO did not examine the contributions of individual activities to the overall growth of the budget for base operating support.

Other O&M

The remaining 43 percent of the growth in the O&M budget occurred in the roughly 60 percent of that budget that funds thousands of other activities. Specific reasons for the growth in that portion of the O&M budget are difficult to identify because it encompasses so many widely disparate goods and services. However, because that portion of O&M was the largest piece of the O&M appropriation in 2014 (\$119 billion), CBO is continuing to analyze that part of the budget.

Costs of Civilian Personnel

A common factor that contributed to the cost growth in most O&M categories was the rising costs of DoD's civilian personnel. (CBO included the costs of civilian personnel in the O&M costs discussed above because doing so more accurately reflects the total cost of activities in each category.) Civilian compensation—which includes pay and bonuses, the employer's share of payroll taxes, and the employer's contributions toward health care premiums and retirement—accounted for one-third of the O&M budget in 2014 and about one-third of the growth in that budget from 2000 to 2014. During that period, costs for such compensation grew by 35 percent in real terms, an average annual increase of 2.2 percent.

Both the number of civilians employed by DoD and the cost per civilian grew from 2000 to 2014. Over that period, the number of civilians increased by about 10 percent. (In contrast, the number of military personnel shrank by 4 percent.) In nominal terms, the pay raises for federal civilians totaled 42 percent over that period, an annual average increase of 2.5 percent.

The per-person costs of employing military personnel and civilians grew at different rates over the period. Looking only at basic pay—which excludes the housing and subsistence allowances and other types of bonuses and special pay for members of the military—the 14 military pay raises enacted between January 2001 and January 2014 cumulated to 55 percent (in nominal terms), or an annual average of 3.2 percent. The increases for civilians were smaller, in part because federal civilian employees did not receive across-the-board pay raises in January 2011, 2012, or 2013, whereas members of the military did.

Acquisition Budgets Grew by 25 Percent From 2000 to 2014

Together, the budgets for procurement and for research, development, test, and evaluation—which make up what CBO refers to as the acquisition portion of DoD's budget—grew by 25 percent (or \$31 billion) in real terms between 2000 and 2014. Those two appropriation categories grow or shrink each year on the basis of decisions by DoD and lawmakers about several hundred major weapon systems and many thousand smaller purchases and development efforts. Because lawmakers can change the extent to which procurement and development are funded relatively easily, appropriations in those two categories tend to increase rapidly when total defense funding is rising and to fall rapidly when total defense funding is declining. That characteristic of acquisition funding has resulted in large variations over relatively short periods of time, particularly in procurement. For example, real procurement per active-duty service member roughly doubled between 1979 and 1985 (during the defense buildup of the Reagan Administration) but was halved over the subsequent 10 years (during the drawdown that followed the end of the Cold War).

Although funding for acquisition might rise or fall rapidly, a steady upward trend can be observed when acquisition funding is viewed over the past six decades. From 1948—the earliest data available to CBO—through 2014, funding per service member for acquisition increased by about 2 percent per year in real terms, on average. Similarly, real acquisition funding per service member increased by an average of 1.6 percent per year in the base budget between 2000 and 2014.

Many factors have probably contributed to the long-term upward trend in acquisition funding per service member. Several that have been identified by analysts include the following:

- Increasing complexity in weapon systems;
- Shrinking quantities of weapon systems purchased (because the size of the military has declined over time), which has led to higher unit costs and, thus, higher costs per service member;
- Decreasing numbers of companies that compete to produce weapon systems; and
- Shifting of noncombat jobs from the military to federal civilians and contractors, which reduced the number of service members, but not the amount of weapons needed.

CBO has not analyzed those factors in detail.

Budgets Varied for DoD's Smaller Appropriations Over the 2000–2014 Period

The remainder of DoD's budget authority is provided in several smaller appropriations and accounts:

- Military construction, for which funding grew by a total of 24 percent between 2000 and 2014;
- Family housing, for which funding sank by 70 percent over the period;
- Revolving and management funds, for which budget authority plummeted by 77 percent over the period; and
- Trust funds, receipts, and other accounts, which together reduced the funding available to DoD by \$1 billion over the period.

Because those appropriations are a small part of DoD's base budget, their combined value in 2014 was only \$8 billion less than it was in 2000.

As discussed above, the sharp drop in the family housing appropriation is the result of DoD's transition to paying for family housing largely with the basic allowance for housing in the military personnel appropriation. Revolving funds and trust funds, receipts, and other appropriations tend to rise and fall over the years for a variety of reasons. But because the accounts are small, changes in their size have little effect on DoD's overall budget.

This Congressional Budget Office (CBO) report was prepared in response to a request by the Chairman and the Ranking Member of the Senate Committee on Armed Services. In keeping with CBO's mandate to provide objective, impartial analysis, this report makes no recommendations.

David Arthur and Daniel Frisk wrote the report with guidance from David E. Mosher and Matthew S. Goldberg. Julie Topoleski and Michael Simpson contributed to the analysis. Christina Hawley Anthony, Kent Christensen, Sarah Jennings, David Newman, Matthew Schmit, and Jason Wheelock of CBO provided helpful comments.

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